

## The Integration of Performance Information in the Financial Cycle – Mapping and Explaining Performance Budgeting Practices in Flemish Local Governments

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*This full paper is the result of two separate PhD projects performed simultaneously in the field of performance budgeting in the local public sector, supervised by Prof. Dr. Geert Bouckaert<sup>3</sup>. Both projects share a similar theoretical and methodological framework, but apply it to different units of research: the Flemish municipalities and public centers for social welfare on one hand and the Flemish provinces on the other hand.*

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## Research problem and research questions

It is internationally recognized that the focus in public management is shifting from an input orientation towards a more output-oriented type of management. More specifically, performance budgeting has been introduced in many OECD countries trying to integrate policy and performance information into the budgeting process, in order to implement new or adjusted procedures in the direction of activity-based, output or outcome budget classifications (Curristine & Flynn, 2013), and away from the traditional input model to make them more policy relevant (Diamond, 2013). This NPM-inspired trend (Hood, 1991) was initiated by the need for more efficient and effective governments. Allen et al (2013:1) show that this need is still present today, by stating that the global financial and economic crisis more than ever *“highlights the importance of governments to develop strong systems for managing their finances”*. As a consequence, several connections have been established between performance information added to the budget and traditional financial information. All these reforms fit the ambitions of New Public Financial Management (Guthrie e.a., 1999), which is characterized by changes to financial reporting systems, the development of a performance measurement approach and the delegation of budgets.

This paper is the result of the research proposal of two separate PhD projects, performed simultaneously in the field of performance budgeting in the local public sector. According to Curristine & Flynn (2013:225) the introduction of performance budgeting practices is not entirely new: *“during the past two decades, governments have tried to improve public sector performance by introducing numerous reforms, including performance measurement, management and budgeting”*. This type of budgeting aims *“to improve the quality of public services by better allocating resources consistent with political and social goals, improving efficiency, economy and effectiveness in their use, and increasing accountability”* (Arizti e.a., 2010:15). Applied to the context of the Flemish local governments, the Flemish government approved an Order regarding the implementation of the Policy and Management Cycle in the Flemish municipalities, public centres for social welfare (PCSW) and provinces. This PMC-Order, which has been operationalized in all 621 Flemish local governments since the beginning of 2014<sup>4</sup>, aims to turn traditional practices of input-based budgeting into performance budgeting by providing one key element, namely budgeting rules and procedures that enable an adequate integration of financial and non-financial information.

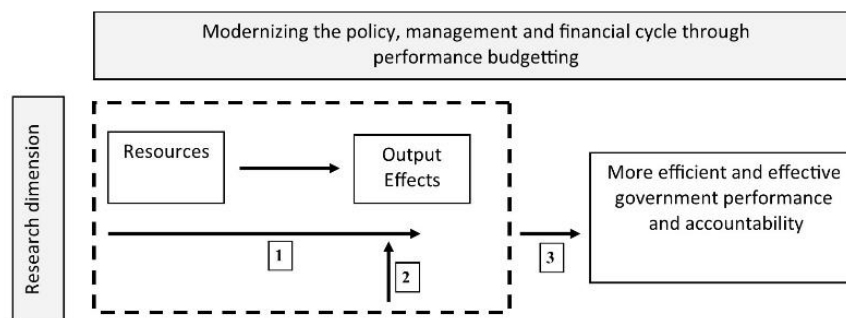
In order to contribute to the understanding of this evolution, three dimensions can be discerned of which two (1 and 2) are the subject of the PhD projects (Black box in Figure 1): (1) the extent in which performance budgeting is implemented in local governments; (2) the search for explanations for the variance in the implementation of performance budgeting and for possible implementation gaps, and (3) the contribution of performance budgeting to efficient and effective government functioning and to the existing accountability mechanisms. Based on the first two dimensions, three research questions are derived:

**RQ1** - How can the extent in which performance budgeting is implemented in local governments be measured systematically?

**RQ2** - To what extent is performance budgeting implemented in Flemish municipalities, PCSW's and provinces?

**RQ3** - How can the extent in which performance budgeting is implemented in the Flemish local governments be explained?

<sup>4</sup> 308 municipalities, 308 PCSW's and 5 provinces



**Figure 1. Towards a result-oriented public financial management.**

RQ1 and RQ2 will be covered in **the first phase** of the research projects. To map performance budgeting practices, a clear understanding of “practices of performance budgeting” and an understanding on how these practices can be measured systematically, is needed to grasp the expected variation and to simultaneously take into account the diversified concept this can represent – as the definition of the OECD (2007) shows. As such, two methodologies – survey and document/database analysis – and three sources – descriptive survey data, the Database Digital Reporting from the Flemish government and the actual multi-annual budgets – will be combined to deduce a fine-grained state of affairs, which will lead to a Performance Budgeting DNA per examined local government (dependent variable).

In a **second phase** (RQ3), we will attempt to contribute in explaining the impact of this trajectory and possible implementation gaps from a new institutionalism approach. This approach assesses the extent to which the implementation of reforms correspond to constitutively intended effects (Peters, 1992). To do so, a critical assessment of the existing literature and three earlier theoretically embedded models will be made in order to use this information to construct a revised theory testing model. As these models are all routed in two research fields – public management research and public sector management accounting research – we will need to be aware of the lack of conceptual clarity that is typical to these disciplines (a.i. Joyce & Sieg, 2000; Young, 2003; Van Helden e.a., 2008). Further, theoretical models that aim at explaining NPM-inspired reforms or specific financial innovations in governments are very rare (a.i. Dunleavy & Hood, 1994; Ribeiro & Scapens, 2006; Lounsbury, 2008). Bouckaert (2002:27) states: “*literature explaining empirically why specific types of budgeting, [accounting and auditing] appear in specific places and at specific times, or predicting the development of new types and their degree of sustainability, is rare*” and “*the whole discussion about causality and sufficient and necessary reasons, is theoretically complex and empirically difficult to check*”. After being refined (based on case studies), our newly constructed model is ready to be further operationalized into a clear set of questions by means of a second survey. This enables us to statistically test a clear set of hypotheses in order to explain the influence of the explanatory variables on the varying Performance Budgeting DNA’s. Research that attempts to consolidate the existing inductive models into a new, deductive model that can be tested, is therefore very valuable. More precisely, all the existing models are approached via case studies which make it difficult to generalize them to the entire population. The PhD projects will attempt to do this based on a qualitative research setting in which the necessary preparatory steps are made towards a quantitative setting.

In the next paragraphs, definitions of some important key concepts and earlier attempts to map practices of performance budgeting (PB) are discussed. Together with the clarification of three existing theoretical frameworks on accounting change, these concepts and mapping instruments allow us to further explain our research design and determine a matching research methodology. In the final paragraphs, we offer some more background on the recent performance budgeting reforms in the Flemish local governments.

## Exploring the key concepts

### (New) Public Financial Management

Performance budgeting is related to a much broader framework of reform in the public sector. Essentially, performance budgeting is the externalization of the financial and accounting dimension within the New Public Management reform (NPM) (Hood, 1991). Especially in the Anglo-Saxon countries, NPM became uprising from the 80's (Bouckaert et al., 2011). Some of the seven doctrines of Hood (1991) are especially valuable for our research:

- explicit standards and measures of performance;
- greater emphasis on output control;
- a stress on greater discipline and parsimony in resource use.

Economy, efficiency and effectiveness in achieving results becomes central and replaces the rules and procedures featured in the traditional bureaucratic government model (Dunleavy & Hood, 1994). To stress the importance of the financial dimension within the NPM, some authors speak of New Public Financial Management (NPFM) (Olson, Guthrie & Humphrey, 1998, Steccolini, 2004). These authors distinguish five categories of reforms with this NPFM of which three are very relevant and applicable on the changing context for the Flemish local governments. (Guthrie et al., 1999:210): *“The first involves changes to financial reporting systems, including the promotion of accrual-based financial statements across government departments and sectors and a reliance on professionally accounting set accounting standards. [...] The [second] comprises the development of a performance measurement approach, including techniques such as financial and non-financial performance indicators, league tables, output and outcome performance measures and benchmarking. The [third] concerns the devolvement/decentralization or delegation of budgets, coupled with the attempted integration of both financial and management accounting systems and also with economic-based information sets. Reforms have especially tried to link budgets with the reporting of results in financial and non-financial terms”*.

As NPFM implies that different domains of public financial management are modernized, it is essential to understand what is meant by public financial management. North (1991) defines it as follows: *“Public Financial Management (PFM) is concerned with the laws, organizations, systems and procedures available to governments wanting to secure and use resources effectively, efficiently and transparently. While PFM encompasses taxes and other government revenue, borrowing and debt management, its main focus is expenditure management, especially in the context of public budgeting”*. This definition is based on the concept of the government as institution subjected to formal and informal rules and behavior. Furthermore this definition, in contrast to many others, focusses both on the management of expenditures and revenues (Allen et al., 2013). Other authors focus in their definition on a cycle-approach.

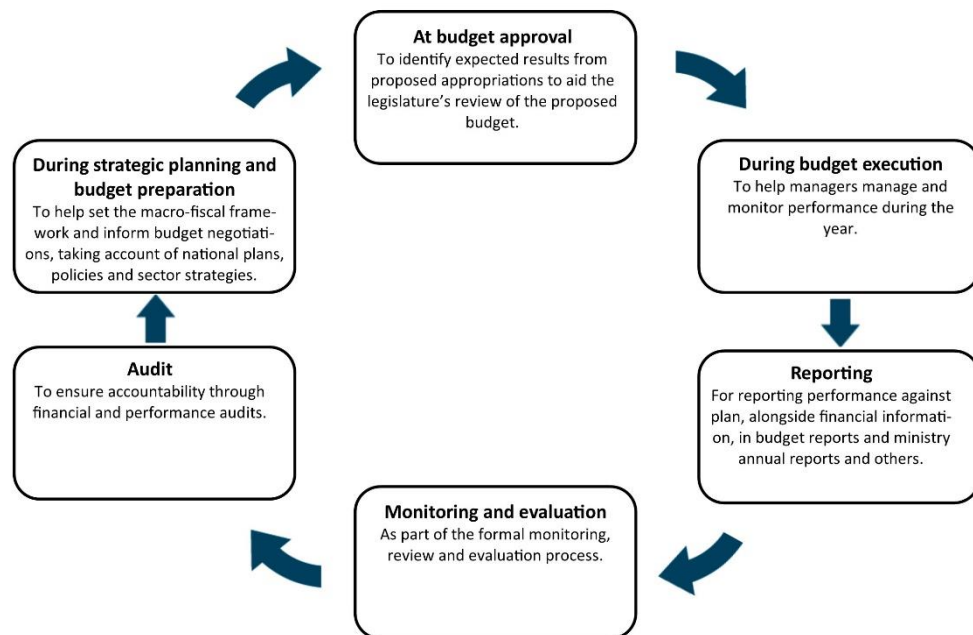


Figure 2. Potential uses of PI in the Budget Management Cycle (Aritzi et al, 2010).

## Performance and budgeting

The striving for a results oriented financial management logically brings performance management into the picture. As Blum and Manning (2009:47) mention, *“measures of performance have been increasingly introduced into management and budgeting arrangements within OECD countries”*. Likewise, Hughes states that *“financial management is now closely related to performance management [...] to provide far more information for decision-makers about the short- and long-term consequences of budgetary decisions”* (2012:250). The extended information system that should result requires more than just bringing financial and non-financial information together. Ideally, all three categories mentioned by Guthrie et al (1999) (cf. supra) are implemented in a connected fashion. As such, accrual-based financial statements and new accounting standards enable a more comprehensive picture of the financial implications of activities performed, which, on their turn, can be related to both financial and non-financial performance measures and ultimately to output and/or outcome based objectives.

More specifically, Pollitt and Bouckaert (2011:82) discern several categories in the modernization of budget and accounting systems. As a first step, performance information is added to the traditional line-item and cash-based budget, mainly as background information. This information does not play any decisive role in the drawing up of the budget, the execution of the budget procedures, let alone the allocation of resources. In a next step, the format of the budget is actually changes (e.g. by aggregating line items into programs) and, as such, the budget is able to answer different questions (e.g. the cost of a specific program). In a third step, the budget procedures are altered, *“so as to try to ensure that the new information in the budget gets properly considered”* (ibidem). A possible final step is to move from cash based to accrual based budgeting.

With regard to the modernization of the accounting system, the authors discern three shifts. Starting from a traditional, cash-based accounting system, most countries shift towards double-entry bookkeeping, possibly with elements of cost analysis, modified cash or modified accrual. In a final

step, full accrual accounting is developed with a focus on providing performance related information (Pollitt & Bouckaert, 2011:84). As such, a more balanced (double-entry) and complete (accrual based) picture is given regarding the property of the organization and the financial translation of activities performed. Moreover, knowing the costs of these activities simultaneously enables the organization to calculate future objectives and, as such, to make up a performance budget.

Examining a more diversified conception of performance budgeting implies several possible connections between the performance information added to the budget and the financial information traditionally established in the budget. In accordance with the modernization shifts described by Pollitt and Bouckaert (2011, see above), the OECD discerns three different performance budgeting categories (2007) (Figure 3).

TYPE	LINKAGE BETWEEN PERFORMANCE INFORMATION AND FUNDING	PLANNED OR ACTUAL PERFORMANCE	PLANNED OR ACTUAL PERFORMANCE
<i>Presentational</i>	No link	Performance targets and/or	Accountability
<i>Performance-informed budgeting</i>	Loose/indirect link	Performance targets and/or	Planning and/or accountability
Direct/formula performance budgeting	Tight/direct link	Performance results	Resource allocation and

**Figure 3. Performance budgeting categories (OECD, 2007).**

In shifting from the presentational type towards a more direct type of performance budgeting, the connection between financial and non-financial information clearly gets stronger and the actual allocation of resources based on this non-financial information becomes possible. Moreover, not only the link between both types of information and the function that follows from this connection changes, also the type of performance information considered shifts. According to the OECD (2007), this performance information can consist of targets and/or results at first, while in the direct type of performance budgeting, the performance results achieved are important as they define allocation.

The types of performance budgeting established in Figure 3 especially help discern between different forms of performance budgeting. As such, the criteria used (namely the connection between the financial and performance information, the type of performance information and the changes following from this connection for the budget process), will be taken into account in the present examination. Moreover, and as mentioned, the practice of performance budgeting in Flemish local governments is expected to consist of more variation than previously. As such, a more thorough study of each of the criteria mentioned is useful. Finally, a genuine implementation of performance budgeting calls for an improved accounting system. Boyle (2011:10) mentions, “*the capability to apportion costs against results achieved is important, where possible, for budgeting purposes. This requires developments to cost accounting systems.*” Therefore, how the accounting systems supports the shift towards (a certain type of) performance budgeting and especially whether this allows for knowledge on costs of activities will be taken into consideration.



## Measurement, incorporation and use of performance information

Performance budgeting necessitates a broader performance management system (Van Garsse & Windey, 2006). According to Bouckaert and Halligan (2008), managing performance consists of three steps, namely **measuring**, incorporating and using performance information. This forms “*a logical sequence of collecting data, integration of data into the management systems and, finally, putting information at work*” (Van Dooren, Bouckaert & Halligan, 2010:6). Following this logic, performance measurement is the systematic collection of data “*by observing and registering performance-related issues for some performance purpose*” (Van Dooren et al., 2010:6). The next step is to **incorporate** the data collected in documents and procedures with the ultimate aim of influencing the organizational discourse, culture and memory (ibidem). To measure and incorporate performance information, an organization can utilize a range of tools and techniques and, as such, acquire a certain (level of), respectively, measurement capacity and incorporation capacity.

On their turn, these capacities define the **use** of performance information “*for designing policies, for deciding, for allocating resources, competencies, and responsibilities, for controlling and redirecting implementation, for (self)evaluating and assessing behaviour and results, and for substantiating reporting and accountability mechanisms*” (ibidem). Following Bouckaert and Van Dooren (2009:156), this use justifies the undertaking of performance measurement – indeed, it “*only becomes valuable when it is followed by management action*”. Cross-organizational, benchmarking and –learning are other potential uses of performance information. More specifically, they could be used “*to upgrade systems to specific standards (single loop learning), to adjust standards (double loop learning) or even to adjust systems constantly as learning how to learn (meta learning)*” (Van Dooren et al., 2010:6). Finally, to fully develop performance management, an adequate fit between the incorporation of performance information and its final use and the establishment of a performance culture would be necessary (ibidem). Bouckaert and Halligan (2008) not only discern between measurement, incorporation and use of performance information, they also distinguish several dimensions within each of these three components. Based on this analytical structure, the authors built a framework in which they discern four ideal types of managing performance, as illustrated below (Bouckaert & Halligan, 2008).

	Traditional/Pre-Performance	Ideal type I: Performance Administration	Ideal type II: Managements of Performances	Ideal type III: Performance Management	Ideal type IV: Performance Governance
<b>MEASURING</b>	Intuitive, subjective	Administrative data registration, objective, mostly input and process	Specialised performance measurement systems	Hierarchical performance measurement systems	Consolidated performance measurement system
<b>INCORPORATING</b>	None	Some	Within different systems for specific management functions	Systematically internal integration	Systematically internal and external integration
<b>USING</b>	None	Limited: reporting, internal, single loop	Disconnected	Coherent, comprehensive, consistent	Societal use
<b>LIMITATIONS</b>	Functional unawareness	Ad hoc, selective, rule based	Incoherence	Complex, perhaps not sustainable as a stable system	Uncontrollable, unmanageable

Figure 4. Four ideal types of managing performance (Bouckaert & Halligan, 2008).

## Other typologies

The public management criteria of Moynihan (2006) are similar to ideal type I (Performance Administration) and ideal type III (Performance Management). The author describes the reform path towards a performance-driven Managing for Results ideal type based on two criteria. Type I, Performance Administration, is low on both criteria while type III, Performance Management, is high on both criteria. The features associated with these values, are described in Figure 5.

	Low Focus on Results	High Focus on Results
High Managerial Authority		MFR ideal type: managers have clear goals and authority to achieve goals. Should facilitate manager attendance to program effectiveness, higher technical efficiency, and results-based accountability.
Low Managerial Authority	Bureaucratic systems, high focus on inputs, and little incentive or authority to increase technical efficiency.	Pressure for performance, but managers have limited power to engineer change. Lack of authority undermines the scope of performance improvement and potential for results-based accountability.

**Figure 5. Criteria to describe public management reform (Moynihan, 2006).**

Finally performance governance (ideal type IV) can be related to what Löffler (2009) states about local governance. Essentially, in this scenario, all stakeholders actively contribute to municipal policy. This requires local governments to engage in managing important external stakeholders and, as such, in network management. Following the Council of Europe (2009) and, more specifically, its Strategy on Innovation and Good Governance at local level, the twelve principles of good democratic governance are: (1) Fair Conduct of Elections, Representation and Participation, (2) Responsiveness, (3) Efficiency and Effectiveness, (4) Openness and Transparency, (5) Rule of Law, (6) Ethical Conduct, (7) Competence and Capacity, (8) Innovation and Openness to Change, (9) Sustainability and Long-term Orientation, (10) Sound Financial Management, (11) Human Rights, Cultural Diversity and Social Cohesion and (12) Accountability. From a local governance perspective, Löffler (2009:221) states that for instance resource management entails not only the activities on the left hand side, but also on the right hand side in Figure 6. The author specifically give the example of participatory budgeting and the involvement of citizens in public spending at the local level in the UK. Reference is also made to the case of 'direct democracy' in Switzerland, "*where citizens are not only consulted on public budgets and tax issues but even have the last word!*" (Löffler, 2009:225).



Resource management	Resource and knowledge management
Budget formulation as a top-down exercise (with fixed ceilings on total expenditures)	Preparation of local budgets with active participation of city councillors, including community representatives
Measurement of unit costs for performance improvement and performance monitoring	Measurement of money and time costs of the organization's activities, as experienced by both the organization and its stakeholders
Resource management	Resource and knowledge management
Transparent financial reporting	'Fiscal transparency' to communicate with external stakeholders (business, citizens, media, etc...) on the value-for-money of activities
Improving technical efficiency	Improving social efficiency, including equitable distribution of budgets and services
Making ICT available to all staff for efficiency-enhancement purposes	Generating and sustaining new knowledge through knowledge management, both for staff and for other stakeholders interacting with the organization (including making ICT available to all stakeholders to improve effectiveness)

Figure 6. Measurement of multidimensional performance (Löffler, 2009).

## Mapping performance budgeting

Since 2003, the OECD has been carrying out the OECD Budget Practices and Procedures Survey approximately every four year. The performance budgeting part of this survey evaluates the development and use of performance information in the budgeting process. For practical reasons, the survey focuses on the central level. Since 2011, the performance budgeting part is isolated into a separate survey. Essentially, a high score implies that (1) there is a broad framework for the development of performance information, (2) there is a high integration of performance information in budgeting and accounting, (3) performance information is used in the decision process and (4) performance results are monitored and reported. This survey is based on a conceptual framework concerning the use of performance information in the budget process and embraces the entire budget process (budget formulation, approval, execution and auditing). To this end, the OECD uses a broad definition of performance budgeting: *"which refers to it as use of performance information to (i) inform budget decisions (whether as a direct input to budget allocation decisions or as contextual information and/or inputs to budget planning), as well as (ii) instills greater transparency and accountability throughout the budget process (by providing information to the public on performance objectives and results)"* (OECD, 2011:13). The conceptual framework the OECD applies, is visualized in Figure 7.

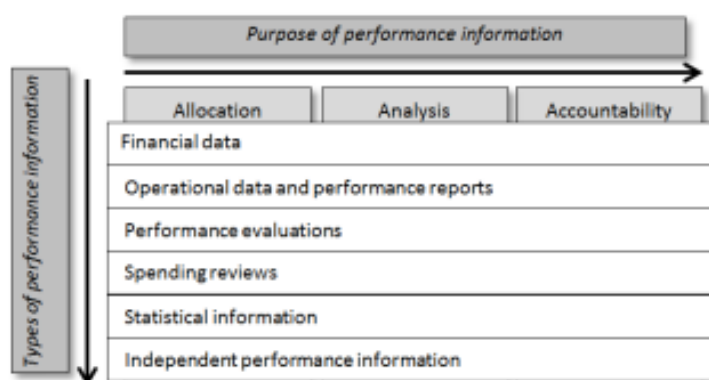


Figure 7. Conceptual framework underlying the OECD Performance Budgeting Indicator.

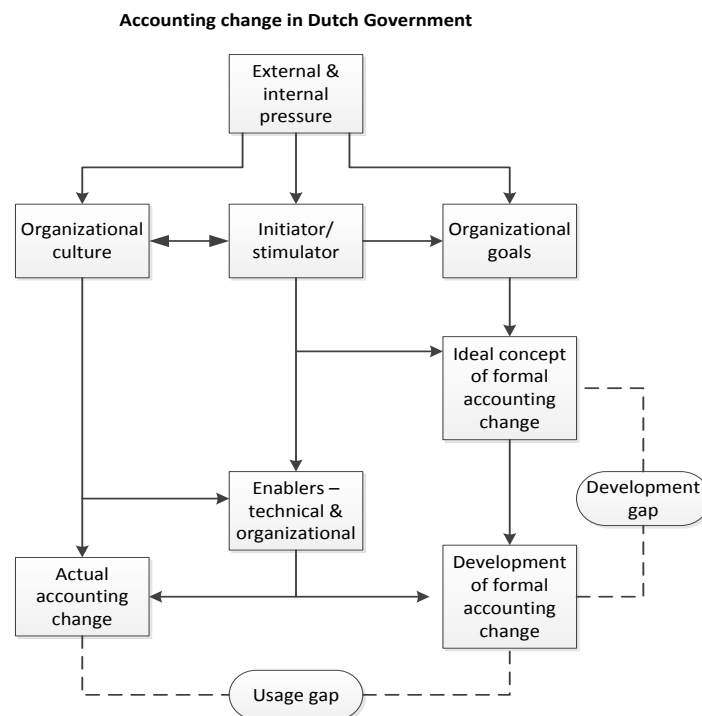
## Theoretical models to explain accounting change

In this part of the research paper, an attempt is made to explain the variation in the extent in which Performance budgeting and accounting is implemented. Earlier, Weets (2012) applied an exploratory approach based on the conceptual model on accounting change of **Ter Bogt and Van Helden (2000)** to explain the extent in which elements of performance budgeting were introduced in Flemish municipalities. Based on research concerning accounting reforms in Dutch governments (such as midsize municipalities), this model combines three academic approaches, namely the institutional work of Burns and Scapens (2000), the 'Seven Cs' model of Shields and Young (1989) and the behavioral theory of the firm of Cyert and March (1963).

Figure 8 visualizes this model. In general, it conceptualizes the introduction of new financial instruments as a change process. As such, beyond the mere mapping of organizational motives to introduce new instruments, the model also pays attention to the change dynamics within organizations. To this end, it includes both technical and organizational aspects of the change process.

A first concept in this model is about the presence or absence of external and/or internal pressure. Ter Bogt and Van Helden (2000), based on Cyert and March (1963), point out that when actors are satisfied with the existing procedures, there is little or no reason or incentive to change. The authors also state that when actors notice that a certain conduct leads to success, they will be inclined to reproduce this conduct and the underlying procedures, i.e. not to change. As such, the presence of pressure to change is a first demand to change the existing procedures within the organization. The internal and external sources of pressure to change would, in turn, influence the organizational culture and goals.

Furthermore, the authors state that a stimulating and powerful leader needs to propagate the necessity of change within the organization. This is the initiator/stimulator. He or she must convince the other actors within the organization of the necessity of change. According to Ter Bogt and Van Helden (2000), this 'champion' influences the organizational culture, while his or her conduct is in turn at least partly defined by this culture. After all, he/she must take into account the habits and customs within the organization when estimating the feasibility of the change trajectory.



**Figure 8. Accounting change according to Ter Bogt and Van Helden (2000).**

Next, change process is developed and executed. According to Ter Bogt and Van Helden (2000), several technical and organizational enabling factors need to be present. The authors refer in this matter to the 'Seven Cs' model of Shields and Young (1989). In the end, the change process results in both the introduction of new formal financial instruments and in actual change of the financial procedures and practices. However, the authors remark that the extent in which the financial procedures and practices are actually changed, is also largely dependent on the prevailing organizational culture. Finally, Ter Bogt and Van Helden (2000) identify two potential gaps: a 'usage gap' and a 'development gap'. This development gap refers to the difference between the ideal concept of change as initially put forward and as finally executed. As such, it mainly concerns the technicalities of the change process. Then again, the usage gap refers to the difference between the usage possibilities of the new financial instruments and the extent in which they are actually applied.

**Weets (2012)** performed a cross-case comparative study (based on diverse cases) to explore the influence of each concept in the original model of Ter Bogt and Van Helden (2000) on the introduction of elements of performance budgeting in the Flemish municipalities selected. Based on her findings, a revised model was constructed (Figure 9). Essentially, some concepts from the original model were preserved (found relevant) and others were removed (found irrelevant). A general critique on the model is its underestimation of the importance of 'agents' and their profile. Furthermore, environmental factors, such as pressure to change, are not only present at the start of the change trajectory, but also further down the line (e.g. changing regulation, economic crisis etc.).

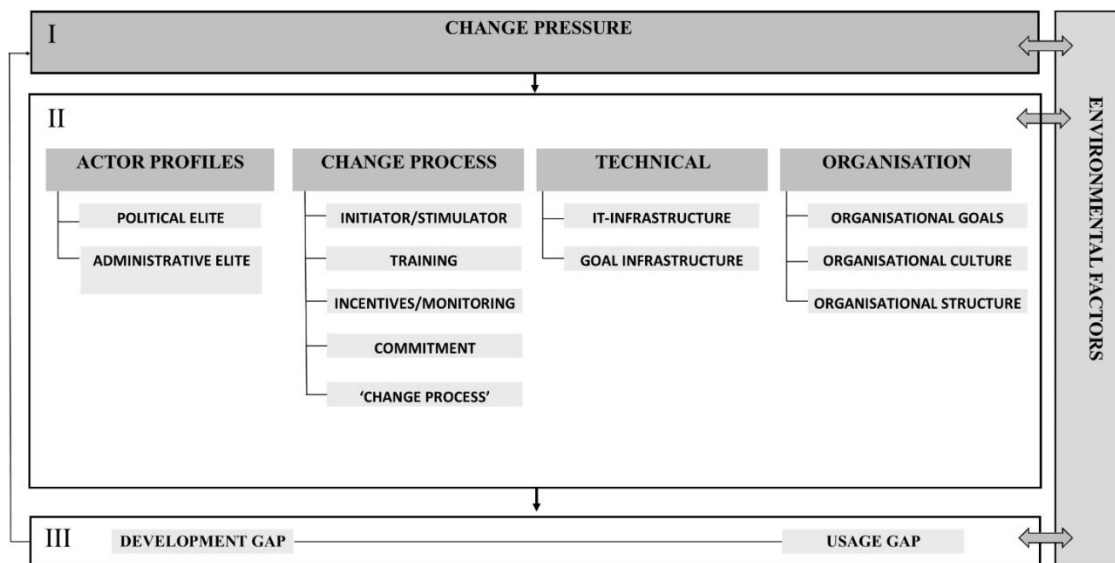


Figure 9. Simplified model Ter Bogt & Van Helden 'revisited' (Weets, 2012).

A more fundamental, theory-confirming accounting change model, was developed by **Liguori (2012)**. The research of this author draws on the archetype theory and is based on findings of Hinings and Greenwood (1988) who studied local government accounting change in the UK from this perspective. Liguori (2012) studied accounting change (accruals and performance measurement) in Italian and Canadian municipalities and uses the archetype theory to investigate how intra-organizational dynamics in combination with broad reform processes influences the outcome of change. Greenwood and Brown (1996:23) state that “*archetypes [concern] not only the forms of structures and systems but also the importance of a common orientation or underlying interpretive scheme that offers ideological coherence to the configuration*”. Different authors (a.i. Kirckpatrick & Ackroyd, 2003; Liguori & Steccolini, 2012; Hammerschmid & Meyer, 2005) acknowledge NPM as a new archetype in which change takes place. For example, in studying radical accounting change in Italian and Canadian municipalities, Liguori (2012) contrasts the modern New Public Management archetype to the traditional bureaucratic archetype. In this sense, radical change not only “*involves a shift in structures [and] systems*”, but also in “*interpretive schemes from an existing archetype to a new one*” (a.i. Liguori, 2012:422; Greenwood & Hinings, 1996 & 2006; Hinings & Greenwood, 1988). Particularly interesting is that archetype theory allows for different organizational outcomes of change, because of its interest in intra-organizational dynamics and the reaction of this internal organization to contextual factors. As such, to explain accounting change in municipalities, Liguori (2012:455) scrutinizes the following explanatory factors (Figure 10):

Factor	Definitions and categories	Assessment criteria
<b>Value commitment</b> (prevailing conceptions of what an organization should be doing, how it should be doing it and how it should be judged – Greenwood and Hinings, 1988; Greenwood and Hinings, 1996).	<p>*<u>Status quo</u>: widespread commitment to the existing set of values within the organization, problems are solved in terms of existing routines.</p> <p>*<u>Indifferent</u>: groups are neither committed nor opposed to prevailing and alternative ideas.</p> <p>*<u>Competitive</u>: some groups support the interpretive scheme in use, others prefer an articulated alternative originating in the institutional context.</p> <p>*<u>Reformative</u>: widespread commitment to an alternative organizational orientation is visible whereas the existing one is opposed.</p>	Interviewees' reconstruction of their judgement on new managerial values over the analysed periods, i.e., their agreement on organizational values imposed by previous external pressure or tradition (i.e., the bureaucratic archetype) vs. their agreement on values proposed by new external pressures (i.e. the managerial archetype).
<b>Interests</b> (Lukas, 1974; Greenwood and Hinings, 1988)	<p>*<u>Satisfaction</u>.</p> <p>*<u>Dissatisfaction</u>.</p>	Interviewees' opinions and agreement on previous vs. existing accounting systems and the effect they had on people at different points in time.
<b>Power</b> (Influence to translate values and interests into favourable organizational arrangements – Pfeffer and Salancick, 1978; Lukas, 1974; Hardy, 1996)	<p>*<u>Concentrated</u>: access to resources, key decision processes and information is restricted to a few groups or an elite.</p> <p>*<u>Dispersed</u>: access to decision processes, information means and resources is open and distributed amongst a variety of groups.</p>	Actors' hierarchical position within the organization and asking them about their relative influence on decision making, resource allocation, agenda control and new meanings diffusion at different points in time.
<b>Technical capabilities</b> (understanding of the new interpretive scheme and related systems, competence to design the new structures – Greenwood and Hinings, 1996; Tushman and Anderson, 1986)	<p>*<u>High</u> knowledge and skills concerning organizational structures, systems and processes and culture.</p> <p>*<u>Low</u> knowledge and skills concerning organizational structures, systems and processes and culture.</p> <p>*<u>Concentrated</u>: few people possess technical capabilities.</p> <p>*<u>Diffused</u>: most people possess technical capabilities.</p>	<p>Level and type of technical knowledge and expertise existing before and after the introduction of the accounting changes.</p> <p>Attendance to training courses.</p>
<b>Managerial Capabilities / Leadership</b> (ability in achieving the final destination of change – Nadler and Tushman, 1989; Romanelli and Tushman, 1983; Tichy and Ulrich, 1984).	<p>*<u>Symbolic</u>: formal responsibility for an organization.</p> <p>*<u>Substantive</u>: contribution to define values, strategic directions and internal commitment.</p>	How managers implemented the changes (i.e. symbolically or substantively contributing in defining values) and through which means (i.e., hierarchical position and resource exchange or commitment, communication and motivation)

Figure 10. Explaining factors in accounting change in municipalities (Liguori, 2012).



## The research design

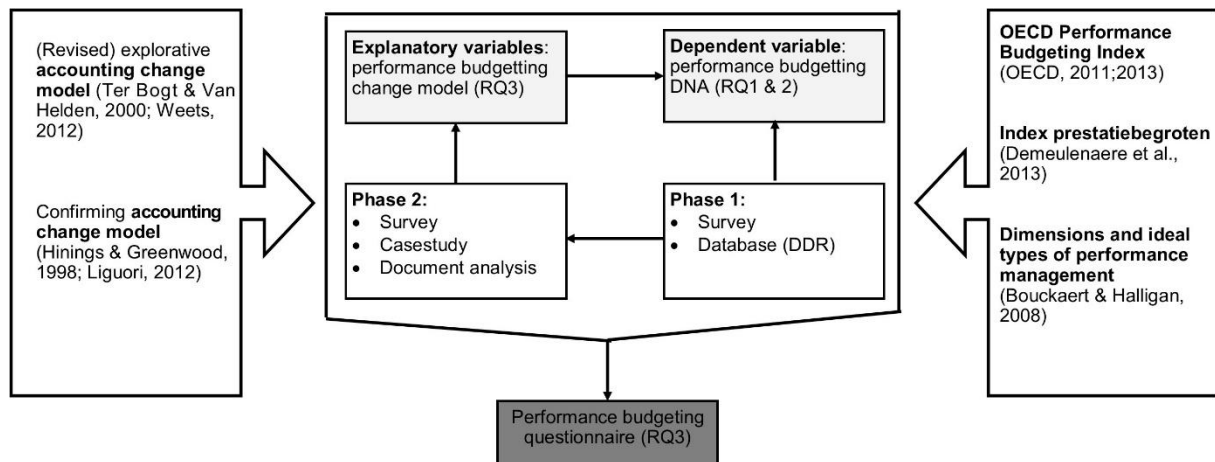


Figure 11. Schematic representation of the research design.

The different insights from the previous paragraphs are combined in the research design which is illustrated above (Figure 11). In accordance with the first two research questions, the extent of performance budgeting in the Flemish local governments is mapped during **phase 1**. A survey will be conducted (1) and multi-annual budgets will be screened by means of the Database Digital Reporting of the Flemish government. The OECD Performance Budgeting Survey for central governments (OECD, 2007; 2011), the scale 'elements of performance budgeting' applied to Flemish municipalities (Weets, 2012) and the mapping instrument of Demeulenaere et al (2013) are the three sources that will serve as preliminary guidelines to construct a refined PB mapping instrument. As such the new survey will meet the following restrictions:

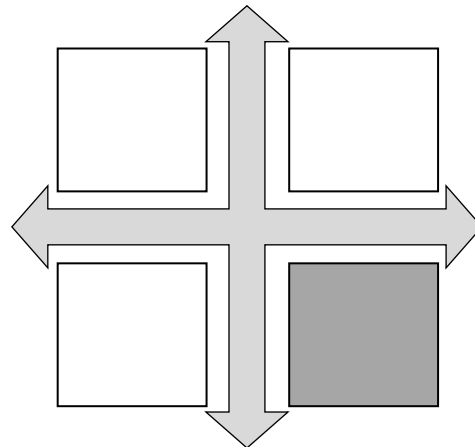
- the instrument of Weets (2012) is restricted to the focus on the incorporation of performance information and focused exclusively on the Flemish municipalities, thereby excluding the PCSWs and the provinces;
- the questions of the OECD Performance Budgeting Survey were not applicable to local governments;
- the instrument of Demeulenaere et al (2013) was applied to a qualitative research setting and was not tested on a large scale.

Based on the results of the survey, a new Performance Budgeting Index for local governments will be constructed based on the three dimensions measure, incorporate and use of performance information (Bouckaert & Halligan, 2008). This first phase was already operationalized by the authors (Bleyen & Lombaert, 2014). Because of the fact that also the policy context of the multi-annual budgets is screened via the Database Digital Reporting of the Flemish government, it is possible to partly neutralize possible bias of the index results due to for instance social desirability (a.i. Andrews, Boyne & Walker, 2006; Walker & Boyne, 2006). This is done by more objective, quantitative analysis which enables to strengthen the incorporation dimension of performance budgeting and allows to generate a performance budgeting DNA.

To be able to explain the variance in practices of performance budgeting and the change processes that are associated (**phase 2**), it is necessary to filter the possible explanatory variables and operationalize them in preparation of the case studies. It is the intention to use the strengths and



weaknesses of each model discussed above to define a delimited set of variables. This facilitates to test the explanatory variables based on predefined hypotheses through case studies and advanced document analysis. As such, a new theory-confirming performance budgeting model can be derived. To maximize the potential of this research methodology, cases will be examined both within- and cross-case. A cross-case comparison definitely adds value and should give insights in the average implementation and how the implementations differ. The positioning maps (Weets, 2012) (Figure 12) will be useful to reach this research objective. These maps give a visual representation of the position of each of the cases in relation to an explanatory variable.



**Figure 12. Example of a positioning map.**

This theory-confirming performance budgeting model will enable follow-up research endeavors to deduce a clear set of hypotheses that can be tested quantitatively on a large scale by means of a new survey.

## Context of the PMC Order

With the approval of the PMC Order applicable to the Flemish municipalities, Public Centres for Social Welfare (PCSW) and Provinces in 2010, the Flemish government aims at moving result-oriented planning and management sharply up local governments' agendas. In 2011, twenty pilot local governments started with the implementation of the new policy and management cycle, while in 2012 another forty-four local government organizations joined in. By 2014, all 308 Flemish municipalities, 308 PCSWs and the 5 Provinces should have implemented the PMC Order.

## Policy objectives

Essentially, the new regulation attempts to stimulate an output orientation over the traditional input orientation by changing the nature of the local governments' reporting system. It attaches great importance to formulating measurable policy objectives in the strategic note added to the multi-annual budgets in order to enforce a detailed connection between these objectives and their financial estimates. The Report to the Flemish Government accompanying the PMC Order (PMC Report<sup>5</sup>) defines that each policy objective should answer (1) what needs to be accomplished, (2) how objectives will be accomplished and (3) what the financial consequences of this objectives are.

<sup>5</sup> Report to the Flemish Government added by the PMC-Order, 10/0705/0382

Moreover, policy objectives should explicitly be formulated in terms of results or effects and translated into action plans with a specific time frame of realization. This should enhance a SMART formulation of policy objectives.

Especially the demand for measurable results or effects is new. As far as possible and useful, results or effects are made measurable (1) to be able to specifically formulate the policy objectives (policy preparation); (2) to clarify the intended results to those executing (policy implementation) and (3) to check whether policy objectives were actually realized (policy evaluation). Further, translating long-term objectives into short-term targets requires an extra level of specification in the policy note added to the annual budgets: each action plan needs to be translated in one or more actions that will be realized in the coming year. Concretizing and evaluating policy objectives by their corresponding action plans, actions and, preferably indicators should meet the recommendation of the Council of Europe to include non-financial criteria in the budget and to inform about the extent of realization of the objectives. It should also enhance the quality of the reports by delivering relevant information.

### Internal process of planning and the reduction of the planning burden

The PMC Report emphasizes the importance of the internal process of planning to the quality of what results in the policy and management reports. Internal planning should be both top-down and bottom-up. As depicted in Figure 12, top-down and thus derived from the strategy of the organization, short-term objectives, corresponding action plans and necessary inputs are formulated and financially translated. This equally implies defining the outputs envisioned. Bottom-up, those in charge of products and services are often placed best to formulate recommendations to meet certain detected needs. Moreover, their financial translation of existing products sheds light on the financial space to develop new initiatives.

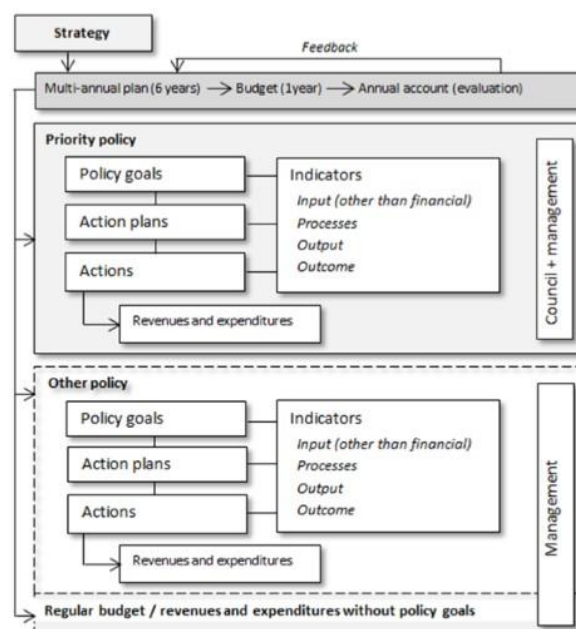


Figure 13. Policy documents, objectives and corresponding content according to the PMC-Order.

Furthermore it is important to relate these policy innovations and planning requirements to the initiative regarding the **reduction of the planning burden** for the Flemish local governments. The Order concerning the Specification of the General Rules for Imposing Periodical Planning and Reporting Obligation for the Local Governments by the Flemish Government (RPB Order) was issued on the 15<sup>th</sup> of July 2011 and lifted a series of separate local policy plans, each having other content, procedures and requirements (for instance different time frames, a different level of detail, etc.). In turn, local governments now have to integrate all policy intentions in the strategic note added to the multi-annual budget. As the former series of policy plans were obligatory in order to be eligible for grants of the Flemish government, some of these intentions – transformed into policy objectives – will need to contribute to the Flemish policy priorities.<sup>6</sup> These policy priorities, together with the according granting rules, are made public by the Flemish government one year before the start of a new legislature. As such, this initiative aims at reducing the administrative burden in exchange for more policy freedom.

The RPB Order specifies the nature of policy that contributes to the Flemish policy priorities. Such policy objectives may only relate to activities, outputs or effects that need to be achieved. The Flemish government can no longer impose input- or resources-based conditions, nor conditions regarding the organizational structure of local governments. This stipulation does not only accord with the philosophy of the PMC Order and the input-output model of performance, it also indicates the shift towards a results-oriented inter-governmental steering model.

The new regulation briefly outlined above attempts to establish a results orientation in the Flemish local governments. It especially emphasizes the importance of policy objectives and their financial translation. Although not obliged, defining measurable results or effects are considered primordial to planning, implementing and evaluating policy. The regulation also urges the use of indicators regarding inputs, activities, outputs and effects. Action plans and actions should concretize the policy objectives. Moreover, the possibility to assign budget holders a specific task-oriented budget makes it possible to decentralize the execution of the policy objectives. The separation of ‘priority’ and ‘remaining’ policy results from the attention given to the information needs of the several report users. The new functional classification in policy domains and fields should externalize the local government’s activities. To some extent, it also explicitly visualizes the link between the budget, the policy objectives (priority or remaining) and the policy domains. Throughout the new regulation, results oriented information and its blending with financial information is considered crucial to provide the relevant information to those who steer and manage the organization. As such, this research will specifically focus on the integration of performance information in budgeting and accounting practices of the local municipalities, PCSWs and Provinces.

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<sup>6</sup> Art. 4 & 5, RPB-Order.

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